

Report  
of the  
Examination of  
Helenville Mutual Insurance Company  
Helenville, WI  
As of December 31, 2001

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# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

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July 26, 2002

Honorable Connie L. O'Connell  
Commissioner of Insurance  
State of Wisconsin  
121 East Wilson Street  
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Commissioner:

In accordance with your instructions, an examination has been performed as of December 31, 2001, of the affairs and financial condition of

HELENVILLE MUTUAL INSURANCE COMPANY  
Helenville, WI

and the following report thereon is respectfully submitted:

## I. INTRODUCTION

The last examination of this company was made in 1997 as of December 31, 1996. The current examination covered the intervening time period ending December 31, 2001, and included a review of such subsequent transactions deemed essential to complete this examination.

The Summary of Examination Results contains elaboration on all areas of the company's operations. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The company was originally organized as a town mutual insurance company on March 27, 1876, under the provisions of the then existing Wisconsin Statutes. The original name of the company was the Town of Jefferson Fire Insurance Company. Subsequent amendments to the company's articles and bylaws changed the company's name to that presently used.

During the period under examination, there were no amendments to the articles of incorporation or to the bylaws.

A review of the certificate of authority revealed that the company is currently licensed to write business in the following counties:

Dane, Dodge, Jefferson, Rock, Walworth, and Waukesha

The company is currently licensed to write property, including windstorm and hail, and nonproperty insurance.

A review was made of the policy and application forms currently used by the company. The company issues an approved policy with or without endorsements for terms of three years with premiums payable on the advance premium basis. No policy fees are charged policyholders.

Business of the company is acquired through 36 agents, none of whom is a director of the company. Agents are presently compensated for their services as follows:

Type of Policy	Compensation
Farm	16 %
All Other Lines	20 %

Wisconsin Reinsurance Corporation adjusts all nonproperty losses and a salaried company adjuster adjusts all property losses.

Policyholders may participate in the management and control of the company by attending and voting at all annual or special meetings of the members. No member may vote by proxy. The annual meeting of the company for the election of directors and special meetings of the company are held in accordance with its articles of incorporation.

### **Board of Directors**

The board of directors consists of nine members divided into three classes. One class is elected at each annual meeting for a term of three years. Vacancies on the board may be filled by the directors for the interim to the next annual meeting when a director shall be chosen for the unexpired term.

The current board of directors consists of the following policyholders of the company:

Name	Principal Occupation	Residence	Expiry
Robert Biber	Farmer	Johnson Creek, WI	2005
Wesley Freeman	Farmer	Whitewater, WI	2005
Earl Topel*	Inactive Insurance Agent	Lake Mills, WI	2005
Neil Sayre	Retired	Jefferson, WI	2003
Melvin Probst	Retired	Helenville, WI	2004
Howard Hinzman	Retired	Lake Mills, WI	2004
Elizabeth Rotar	Small Business Owner	Fitchburg, WI	2003
Earl Reu	Farmer	Fort Atkinson, WI	2004
Rose Henning	Retired	Helenville, WI	2003

\*Earl Topel sold his business in 2002 and is currently not acting as an insurance agent.

Members of the board currently receive \$62.00 for each meeting attended and \$0.30 per mile for travel expenses.

### **Officers**

Officers are elected by the board of directors from among its members and hold office for one year or until their successors are duly elected and qualified.

Officers serving at the present time are as follows:

<b>Name</b>	<b>Office</b>	<b>Annual Salary</b>
Robert Biwer	President	\$3,000
Neil Sayre	Vice-President	Pro-rata^
Earl Topel	Secretary	\$3,000
Earl Reu	Treasurer	\$2,000

^The vice president is paid a pro rata portion of the president's salary based on the amount of time he assumes the duties of the president. He receives no other compensation.

### **Committees of the Board**

The company's bylaws allow for the formation of certain committees by the board of directors.

The committees at the time of the examination are listed below:

#### **Adjusting Committee**

Earl Topel  
Robert Biwer  
Neil Sayre  
Earl Reu

#### **Salary and Commissions Committee**

Betty Rotar, Chair  
Wesley Freeman  
Howard Hinzmann  
Neil Sayre

#### **Advertising Committee**

Rose Henning, Chair  
Earl Topel  
Howard Hinzmann

#### **Finance Committee**

Earl Reu, Chair  
Betty Rotar  
Rose Henning

#### **Rate and Form Committee**

Neil Sayre, Chair  
Bud Probst  
Earl Topel  
Betty Rotar

#### **Inspection Committee**

Bud Probst, Chair  
Wesley Freeman  
Earl Reu  
Rose Henning  
Better Rotar

#### **Reinsurance Committee**

Earl Topel, Chair  
Earl Reu  
Neil Sayre  
Bud Probst

## Growth of Company

The growth of the company during the past five years as compiled from its filed annual statements was as follows:

Year	Net Premiums Earned	Net Losses and LAE Incurred	Policies In Force	Net Income	Admitted Assets	Policyholders' Surplus
1997	\$1,005,209	\$710,328	3,148	\$ 75,902	\$2,068,728	\$ 918,834
1998	1,100,448	926,894	3,006	(195,394)	2,017,318	728,737
1999	1,085,665	512,787	2,941	256,215	2,022,915	1,014,670
2000	1,033,967	719,105	2,868	54,928	2,007,851	1,025,767
2001	989,365	688,431	2,807	(12,773)	1,987,341	993,000

The ratios of premiums written, gross and net, to surplus as regards policyholders during the past five years were as follows:

Year	Gross Premiums Written	Net Premiums Written	Ending Surplus	Writings Ratios Gross	Net
1997	\$1,320,537	\$ 939,973	\$ 918,834	144%	102%
1998	1,467,706	1,004,162	728,737	201	138
1999	1,470,151	1,084,187	1,014,670	145	107
2000	1,457,547	1,027,967	1,025,767	142	100
2001	1,448,896	994,365	993,000	146	100

For the same period, the company's operating ratios were as follows:

Year	Net Losses and LAE Incurred	Other Underwriting Expenses Incurred	Net Earned Premiums	Loss Ratio	Expense Ratio	Composite Ratio
1997	\$710,328	\$335,932	\$1,005,209	71%	36%	106%
1998	926,894	462,076	1,100,448	84	46	130
1999	512,787	414,355	1,085,665	47	38	85
2000	719,105	378,117	1,033,967	70	37	106
2001	688,431	393,901	989,365	70	40	109

The company produced significant net income in 1999 and 2000 and a small net loss in 2001. The company has been able to do this even though they have suffered severe hail and windstorm damage over the past few years. Also during recent years, the company has been rewriting a significant portion of their business. That has resulted in fewer policies in force, but gross premiums written still have increased significantly as compared to 1997. This is due to the fact that the company has written larger policies and increased its rates over the past few years.

## II. REINSURANCE

The examiners' review of the company's reinsurance portfolio revealed there is currently one ceding treaty. The treaty contained a proper insolvency clause and did comply with s. Ins 13.09 (3), Wis. Adm. Code, concerning maximum wind loss. Company retentions of risk complied with s. Ins 13.06, Wis. Adm. Code.

Reinsurer:	Wisconsin Reinsurance Corporation
Effective date:	January 1, 2002
Termination provisions:	January 1, 2003 or subsequent January 1, by either party providing at least 90 days' notice in writing

The coverages provided under this treaty are summarized as follows:

- |                      |                                                                                                                                                |
|----------------------|------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of contract:    | Class A Excess of Loss (Nonproperty)                                                                                                           |
| Lines reinsured:     | All casualty business written by the company                                                                                                   |
| Company's retention: | \$10,000 in respect to each and every loss occurrence                                                                                          |
| Coverage:            | 100% of each and every loss, including loss adjustment expense, in excess of \$10,000 subject to a maximum limit of \$1,000,000 per occurrence |
| Reinsurance premium: | 40% of the premium written                                                                                                                     |
- |                      |                                                                                                                                                                                                                                                                                                                       |
|----------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Type of contract:    | Class B First Surplus                                                                                                                                                                                                                                                                                                 |
| Lines reinsured:     | All property business written by the company                                                                                                                                                                                                                                                                          |
| Company's retention: | \$400,000 or more per risk or 50% of each risk up to \$400,000                                                                                                                                                                                                                                                        |
| Coverage:            | Pro rata portion of each risk, including loss adjustment expense, corresponding to the amount of risk ceded up to \$800,000 when the company's retention is \$400,000 or more. When the company's retention is \$400,000 or less in respect to a risk, the company may cede on a pro rata basis up to 50% of the risk |
| Reinsurance premium: | Proportional to the amount of risk ceded                                                                                                                                                                                                                                                                              |
| Ceding commission:   | Provisional commission of 15.0% subject to a minimum of 15.0% and a maximum of 35% based on loss experience                                                                                                                                                                                                           |

3. Type of contract: Class C Excess of Loss  
  
Lines reinsured: All property business written by the company  
  
Company's retention: \$40,000 in respect to each and every loss occurrence  
  
Coverage: 100% of any loss, excluding loss adjusting expense, in excess of \$40,000, subject to a limit of liability to the reinsurer of \$110,000  
  
Reinsurance premium: Minimum rate: 5% of net premiums written  
Maximum rate: 23% of net premiums written  
Premium deposit: \$132,000  
Current rate: 11.23%
4. Type of contract: Class C-2 Excess of Loss  
  
Lines reinsured: All property business written by the company  
  
Company's retention: \$150,000 in respect to each and every loss occurrence  
  
Coverage: 100% of any loss, excluding loss adjustment expense, in excess of \$150,000, subject to a limit of liability to the reinsurer of \$250,000  
  
Reinsurance premium: 2% of net premiums written, subject to a deposit premium of \$23,700
5. Type of contract: Class D/E Catastrophe and Stop Loss  
  
Lines reinsured: All property business written by the company as respects Part A - Catastrophe Coverage and all business written by the company as respects Part B - Stop Loss Coverage  
  
Company's retention: Part A Catastrophe Coverage - first \$120,000 of losses, excluding loss adjustment expense, arising out of each loss occurrence  
  
Part B Stop Loss Coverage - 75% of the company's net premiums written, subject to a minimum retention of \$800,000  
  
Coverage: Part A Catastrophe Coverage - 100% of the amount by which the loss exceeds \$120,000 subject to a limit of liability to the reinsurer of \$280,000  
  
Part B Stop Loss Coverage - 100% of the amount, if any, by which the aggregate of the company's losses (excluding loss adjustment expense) exceed the retention noted above  
  
Reinsurance premium: Rate based on a formula calculation which takes into account the net premiums written and losses incurred by the reinsurer under this contract for the eight calendar years immediately preceding the year just completed  
  
Minimum rate: 9.50% of net premiums written  
Maximum rate: 25.00% of net premiums written  
Premium deposit: \$127,200  
Current rate: 9.50%



### **III. FINANCIAL DATA**

The following financial statements were filed with the Commissioner of Insurance in the company's annual statement at December 31, 2001. Adjustments made as a result of the examination are noted at the end of this section in the area captioned "Reconciliation of Policyholders' Surplus."

**Helenville Mutual Insurance Company**  
**Statement of Assets and Liabilities**  
**As of December 31, 2001**

<b>Assets</b>	<b>Ledger</b>	<b>Nonledger</b>	<b>Not Admitted</b>	<b>Net Admitted</b>
Cash in Company's Office	\$ 25	\$	\$	25
Cash Deposited in Checking Account	(33,845)			(33,845)
Cash Deposited at Interest	462,471			462,471
Bonds (at Amortized Cost)	900,717			900,717
Stocks or Mutual Fund Investments (at Market)	436,038			436,038
Real Estate (Net of Accumulated Depreciation and Encumbrances)	2,411			2,411
Premiums and Agents' Balances In Course of Collection	4,200			4,200
Premiums, Agents' Balances, and Installments Booked but Deferred and Not Yet Due	182,000			182,000
Investment Income Due or Accrued		13,605		13,605
Reinsurance Recoverable on Paid Losses and LAE	19,000			19,000
Fire Dues Recoverable	319			319
Other Assets: Commission Receivable	400			400
<b>TOTALS</b>	<u><b>\$1,973,736</b></u>	<u><b>\$13,605</b></u>	<u><b>\$ 0</b></u>	<u><b>\$1,987,341</b></u>

**Liabilities and Surplus**

Net Unpaid Losses	\$ 150,000
Unpaid Loss Adjustment Expenses	2,800
Commissions Payable	50,900
Unearned Premiums	724,000
Reinsurance Payable	59,813
Amounts Withheld for the Account of Others	2,445
Other Liabilities: Expense Related Accounts Payable	4,383
	<hr/>
TOTAL LIABILITIES	994,341
Policyholders' Surplus	<u>993,000</u>
TOTAL	<u>\$1,987,341</u>

**Helenville Mutual Insurance Company**  
**Statement of Operations**  
**For the Year 2001**

Net Premiums and Assessments Earned	<u>\$ 989,365</u>
Deduct:	
Net Losses Incurred	575,202
Net Loss Adjustment Expenses Incurred	113,229
Other Underwriting Expenses Incurred	<u>393,901</u>
Total Losses and Expenses Incurred	<u>1,082,332</u>
Net Underwriting Gain (Loss)	
Net Investment Income:	
Net Investment Income Earned	91,666
Net Realized Capital Gains	<u>(11,472)</u>
Total Investment Income	<u>80,194</u>
Net Income (Loss) Before Policyholder Dividends and Before Federal Income Taxes	(12,773)
Policyholder Refunds or Dividends	<u>0</u>
Net Income (Loss) Before Federal Income Taxes	(12,773)
Federal Income Taxes Incurred	<u>0</u>
Net Income (Loss)	<u>\$ (12,773)</u>

**Helenville Mutual Insurance Company**  
**Reconciliation and Analysis of Surplus as Regards Policyholders**  
**For the Five-Year Period Ending December 31, 2001**

The following schedule is a reconciliation of surplus as regards policyholders during the period under examination as reported by the company in its filed annual statements:

	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
Surplus, beginning of year	\$855,999	\$918,834	\$728,737	\$1,014,670	\$1,025,767
Net income/(loss)	75,902	(195,394)	256,215	54,928	(12,773)
Net unrealized capital gains or (losses)	(18,223)	4,388	29,718	(43,831)	(19,994)
Change in non-admitted assets	5,156	909	-	-	-
Surplus, end of year	<u>\$918,834</u>	<u>\$728,737</u>	<u>\$1,014,670</u>	<u>\$1,025,767</u>	<u>\$993,000</u>

### **Reconciliation of Policyholders' Surplus**

The examination resulted in no adjustments to policyholders' surplus. The amount reported by the company as of December 31, 2001 is accepted.

#### IV. SUMMARY OF EXAMINATION RESULTS

##### Compliance with Prior Examination Report Recommendations

Comments and recommendations contained in the last examination report and the action taken on them by the company are as follows:

1. Invested Assets—It is again recommended that the company comply with s. Ins 13.05, Wis. Adm. Code, as regards custody and control of its invested assets.

Action—Compliance

2. Invested Assets—It is recommended that the company obtain proper custodial or safekeeping agreements with its bank or banking and trust company to meet the standards required by the Examiners Handbook.

Action—Compliance

3. Transition into the New Investment Rule—It is recommended that the company make no additional Type 2 investments until the company meets the required amount of Type 1 investments, pursuant to s. Ins 6.20 (6) (c), Wis. Adm. Code.

Action—Compliance

4. Net Unpaid Losses—It is recommended that the company establish an IBNR reserve for the nonproperty losses on Schedule J-1 of the annual statement.

Action—Compliance

## **Current Examination Results**

### **Corporate Records**

The minutes of the annual meetings of policyholders and meetings of the board of directors and any committees thereof, were reviewed for the period under examination and also for the subsequent current period.

Biographical data relating to company officers and directors have been reported in accordance with the provisions of s. Ins 6.52, Wis. Adm. Code.

The company has executed formal written agreements with its agents. The contracts include language indicating the agent will represent the company's interests "in good faith."

### **Conflict of Interest**

In accordance with a directive of the Commissioner of Insurance, each company is required to establish a procedure for the disclosure to its board of directors of any material interest or affiliation on the part of its officers, directors, or key employees which conflicts or is likely to conflict with the official duties of such person. A part of this procedure is the annual completion of a conflict of interest questionnaire by the appropriate persons. The company has adopted such a procedure for disclosing potential conflicts of interest. Conflict of interest questionnaires were reviewed for the period under examination with no apparent conflicts being noted.

### **Fidelity Bond and Other Insurance**

The company is afforded coverage under the terms of the following bonds or contracts and has complied with s. Ins 13.05 (6), Wis. Adm. Code, which sets forth the minimum requirements for fidelity bond coverage:

<b>Type of Coverage</b>	<b>Coverage Limits</b>
Fidelity Bond	\$ 125,000
Combined Professional Liability and Directors and Officers Liability	2,000,000
Commercial General Liability	2,000,000
Property:	
Building	125,000
Contents	40,000

### **Underwriting**

The company has a written underwriting guide. The guide covers all the lines of business that the company is presently writing.



The company has a formal inspection procedure for both new and renewal business. A sampling of new applications and of renewal business is inspected by committee members independent of the risk under consideration and review.

### **Claims Adjusting**

The company has an adjusting committee consisting of at least three directors as required by s. 612.13 (4), Wis. Stat. The function of this committee is to adjust or supervise the adjustment of losses.

### **Accounts and Records**

The examiners' review of the company's records indicated that the company is in compliance with s. Ins 13.05, Wis. Adm. Code, which sets forth the minimum standards for the handling of cash and recording of cash transactions by town mutual insurance companies. The examiners noted the following:

1. A proper policy register is maintained
2. A proper cash receipts journal is maintained
3. A proper cash disbursements journal is maintained
4. A proper general journal is maintained
5. A proper general ledger is maintained

An extensive review was made of income and disbursement items. Cash receipts were traced from source records and the proper recording and eventual deposit thereof ascertained. Negotiated checks issued during the period under examination were reviewed, test checked for proper endorsement, and traced to cash records. The verification of assets and determination of liabilities were made as of December 31, 2001.

The company is audited annually by an outside public accounting firm.

### **EDP Environment**

Company personnel were interviewed with respect to the company's Electronic Data Processing environment. Access to the computers is limited to people authorized to use the computers.

Company personnel back up the computers daily and the backed-up data is kept off-site. A manual which describes how to use the company's software and outlines the steps to complete specific tasks assists in the continuity of operations for seldom-used applications, training, or when staff turnover occurs. The company has manuals documenting the use of its software.

### **Disaster Recovery Plan**

A disaster recovery plan identifies steps to be performed in case the company loses a key employee, is not able to access its computer, information on its computer was lost, or the office building

was destroyed, to name a few contingencies. The company has developed a disaster recovery plan. The company's disaster recovery plan appears to be adequate.

### **Invested Assets**

Section 610.23, Wis. Stat., requires insurers to hold all investments and deposits of its funds in its own name except that:

- (1) Securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of the bank or banking and trust company; and
- (2) Any insurer may acquire and hold securities in bearer form.

For securities not held under a custodial agreement or trust arrangement with a bank or banking and trust company, s. Ins 13.05 (4), Wis. Adm. Code, requires that:

Non-negotiable evidences of company investments such as registered bonds, certificates of deposits, notes, etc., shall be maintained in a safe or vault with adequate safety controls or in a safety deposit box in a bank. Negotiable evidences of company investments shall be maintained in a safety deposit box in a bank. Access to a company safety deposit box containing negotiable securities shall require the presence and signature of at least 2 officers, directors or employees of the company.

The company is in compliance with these requirements.

### **Investment Rule Compliance**

The investment rule for town mutuals allows a company to invest in common stocks, common stock mutual funds, and other higher risk investments (referred to as "Type 2") provided that the town mutual has a sufficient amount of lower risk investments (referred to as "Type 1"). A town mutual may invest in Type 2 securities only if it already has sufficient Type 1 investments. Type 1 investments must equal or exceed the greater of items 1, 2, or 3.

1. Liabilities plus \$300,000	\$1,294,341
2. Liabilities plus 33% of gross premiums written	1,472,477
3. Liabilities plus 50% of net premiums written	1,491,524
4. Amount required (greater of 1, 2, or 3)	1,491,524
5. Amount of Type 1 investments as of 12/31/2001	<u>1,563,596</u>
6. Excess or (deficiency)	\$ <u>72,072</u>

The company has sufficient Type 1 investments.

## **ASSETS**

<b>Cash and Invested Cash</b>	<b>\$428,651</b>
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The above asset is comprised of the following types of cash items:

Cash in company's office	\$ 25
Cash deposited in banks-checking accounts	(38,845)
Cash deposited in banks at interest	<u>462,471</u>
 Total	 <u>\$ 428,651</u>

Cash in the company's office at year-end represents the company's petty cash fund. A physical count was made by the examiners during the course of the examination and the balance reconciled to year-end.

Cash deposited in banks subject to the company's check and withdrawal consists of one account maintained in a local bank. Verification of checking account balances was made by obtaining confirmations directly from the depositor and reconciling the amounts shown thereon to company records.

Cash deposited in banks represents the aggregate of eleven deposits in nine depositories. Deposits were verified by direct correspondence with the respective depositories and by an actual count and inspection of certificates and/or passbooks. Interest received during the year 2001 totaled \$19,908 and was verified to company cash records. Rates of interest earned on cash deposits ranged from 4.80% to 5.82%. Accrued interest on cash deposits totaled \$1,155 at year-end.

<b>Book Value of Bonds</b>	<b>\$900,717</b>
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The above asset consists of the aggregate book value of bonds held by the company as of December 31, 2001. Bonds owned by the company are held under a custodial agreement with a banking and trust company.

Bond purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in bonds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Interest received during 2001 on bonds amounted to \$59,346 and was traced to cash receipts records. Accrued interest of \$12,450 at December 31, 2001, was checked and allowed as a nonledger asset.

**Stocks and Mutual Fund Investments****\$436,038**

The above asset consists of the aggregate market value of stocks and mutual funds held by the company as of December 31, 2001. Stocks owned by the company are held under a custodial agreement.

Stock and mutual fund purchases and sales for the period under examination were checked to brokers' invoices and advices. The company's investment in stocks and mutual funds was in conformance with Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

Dividends received during 2001 on stocks and mutual funds amounted to \$23,006 and were traced to cash receipts records. There were no accrued dividends at December 31, 2001.

**Book Value of Real Estate****\$2,411**

The above amount represents the company's investment in real estate as of December 31, 2001. The company's real estate holdings consisted of land. The value of the company's home office building has been fully depreciated.

The required documents supporting the validity of this investment were reviewed and were in order. Adequate hazard insurance was carried on the real estate and contents as noted under the caption, "Fidelity Bond and Other Insurance." The company's investment in real estate and related items was in conformance with the Wisconsin Statutes and the rules of the Commissioner of Insurance as regards investments made by town mutual insurers.

**Agents' Balances or Uncollected Premiums****\$4,200**

The above ledger asset represents the amounts due from agents or policyholders which are not in excess of 90 days past due at year-end. A review of individual agent's accounts verified the accuracy of this asset.

**Premiums, Agents' Balances, and Installments Booked But Deferred and Not Yet Due****\$182,000**

The above ledger asset represents premiums and agents' balances which are receivable, but not yet due because the insureds have chosen a semiannual or quarterly billing mode.

This asset was documented by an automated report, itemizing the company's calculation of installments booked but deferred and not yet due for each policy in force as of December 31, 2001. The examiners' review of the entries on this automated report, which included recalculation of the company's

results for policies selected on a sample basis and review of the subsequent collection of the balance, verified the accuracy of this asset.

**Investment Income Due and Accrued** **\$13,605**

Interest due and accrued on the various assets of the company at December 31, 2001, consists of the following:

Cash deposited at interest	\$ 1,55
Bonds	<u>12,450</u>
Total	<u>\$13,605</u>

**Reinsurance Recoverable on Paid Losses** **\$19,000**

The above asset represents recoveries due to the company from reinsurance on losses, which were paid on or prior to December 31, 2001. A review of year-end accountings with the reinsurer and subsequent collection of the balance verified the above asset.

**Fire Department Dues Recoverable** **\$319**

This asset represents the fire department dues receivable at December 31, 2001. The examiners reviewed the company's fire department dues calculation and found this asset to be correctly calculated. The actual received paid was verified to the cash receipts records.

**Commissions Receivable** **\$400**

This asset represents commissions receivable from the company's first layer of their reinsurance contract at December 31, 2001. The examiner's review determined this account balance to be correctly stated.

## LIABILITIES AND SURPLUS

**Net Unpaid Losses** **\$150,000**

This liability represents losses incurred on or prior to December 31, 2001, and remaining unpaid as of that date. The examiners' development of unpaid losses is compared with the amount estimated by the company in the following schedule.

	<b>Company Estimate</b>	<b>Examiners' Development</b>	<b>Difference</b>
Incurred But Unpaid Losses	\$541,700	\$576,722	\$ (35,022)
Less:			
Reinsurance Recoverable on Unpaid Losses	<u>391,700</u>	<u>427,177</u>	<u>(35,477)</u>
Net Unpaid Losses	<u>\$150,000</u>	<u>\$149,545</u>	<u>\$ 455</u>

The examiners developed this liability by totaling actual loss payments made through the development period on those losses incurred on or prior to December 31, 2001. To the actual paid loss figures was added an estimated amount for those 2001 and prior losses remaining unpaid at the examination date. No adjustment to surplus was noted above since the above difference of \$455 was not considered material for purposes of this examination.

The examiners' review of claim files included open claims, paid claims, claims closed without payment, and all claims which were denied during the examination period. The review indicated that claims are investigated and evaluated properly and that payments are made promptly and in accordance with policy provisions upon the submission of a proper proof of loss. In addition, the review of claims handling procedures and files revealed the following:

1. A proper loss register is maintained.
2. Claim files contained sufficient investigatory data and documentation to verify settlement payments or reserve estimates.
3. Proofs of loss were properly signed.

**Unpaid Loss Adjustment Expenses** **\$2,800**

This liability represents the company's estimate of amounts necessary to settle losses which were incurred prior to December 31, 2001, but which remained unpaid as of year-end.

The examiners' analysis of expenses incurred in the current year related to the settlement of prior year losses, as well as estimates of amounts necessary to settle any prior losses remaining unpaid at the examination date, determined this liability to be adequately stated.

**Unearned Premiums****\$724,000**

This liability represents the reserve established for unearned premiums in compliance with s. Ins 13.08 (3), Wis. Adm. Code. This reserve was established using the daily pro rata method, with applicable adjustments for policy changes and reinsurance activity.

During the review of unearned premiums, it was noted that the company had included \$47,441 in unearned premiums that were actually advance premiums. Per the annual statement instructions, premiums received in advance should be reported separately on page 3, line 12F of the annual statement. It is recommended that the company record advance premiums separately on page 3, line 12F of the annual statement, per the annual statement instructions.

**Reinsurance Payable****\$59,813**

This liability consists of amounts due to the company's reinsurer at December 31, 2001, relating to transactions, which occurred on, or prior to that date.

Subsequent cash disbursements and reinsurance accountings verified the amount of this liability.

**Commissions Payable****\$50,900**

This liability represents commissions due to agents at December 31, 2001. The liability includes commissions on both current premiums and deferred premiums.

The examiners reviewed the company's commissions calculation and found this liability to be correctly calculated.

**Amounts Withheld for the Account of Others****\$2,445**

This liability represents employee payroll deductions in the possession of the company at December 31, 2001. Supporting records and subsequent cash disbursements verified this item.

**Accounts Payable****\$4,383**

This liability represents the company's general accounts payable incurred prior to December 31, 2001, which had not been paid. The examiners' review and search for unrecorded liabilities paid after year-end determined this balance due to be correctly stated.

## **V. CONCLUSION**

The company reported assets of \$1,987,341, liabilities of \$994,341, and surplus of \$993,000 at year-end 2001. There was no adjustment made to surplus as a result of this examination. The company complied with all four of its prior examination recommendations.



## VI. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 21 - Unearned Premiums—It is recommended that the company record advance premiums separately on page 3, line 12F of the annual statement, per the annual statement instructions.

## **VII. ACKNOWLEDGMENT**

The courteous cooperation extended to the examiners by the company's personnel is hereby acknowledged.

In addition to the undersigned, Amy Wolff of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Respectfully submitted,

Rick Anderson  
Examiner-in-Charge